

Weekly Contributions

[REDACTED] ORE, CIA  
19 April 1949

Of the developments reported on this week, the situation in Ecuador (p. 9) merits special attention because, with the present critical economic situation, any significant change in the present balance of political alignments could very well have serious effects on the administration.

CURRENT DEVELOPMENTS

GENERAL: At the coming ILO conference three unscheduled controversial issues are likely to arise (p. 2).

NORTHERN DIVISION: Cuba's Communist Party could very well lose its effectiveness as a political party as the result of quarrels between PSP leaders and militants (p. 2). The Cuban Government is greatly concerned over the renewal of gang warfare in that country (p. 3).

CENTRAL DIVISION: In Colombia inter-party violence continues, but the army is considered able to prevent dangerous and widespread fighting (p. 3). In Colombia there is a marked lack of confidence in the economic prospects for the immediate future, even though long-term prospects are not unfavorable (p. 4). Brazil's Communists have received a definite setback as the result of government action to end Communist-inspired "peace conferences" (p. 5).

SOUTHERN DIVISION: In Paraguay, the election of Molas López as President consolidates the position of the Democratic Colorado Party (p. 5). Chile's trade with the US has been sharply curtailed, and its European trade has been increased, because of dollar shortages (p. 6). Argentina is expected to push the cause of Spain before the UN (p. 6).

SPECIAL SUBJECTS

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Weekly Contributions,  
(CIA Working Paper)



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1. GENERAL: Serious Controversy Possible at coming ILO Conference

US interests in Hemisphere solidarity could very well be impaired at the Fourth Regional Latin American Conference of the International Labor Organization to be held in Montevideo from 25 April to 7 May, as it is likely that certain highly controversial unscheduled issues will be interjected into the program.

No serious controversy is expected from items on the proposed agenda, which is limited to such primarily non-political problems as (1) the Director General's report on industrialization, efficiency of labor force, training, and health; (2) conditions of life and work of indigenous populations; (3) conditions of employment of agricultural workers; (4) adjustment of labor disputes; (5) migration; and (6) the relationship between OAS and ILO. Three controversial issues, of concern because they could have an adverse effect on Hemisphere solidarity, are likely to be brought up at the conference, however, even though they are not scheduled.

One such item is the reaction of labor groups to the military juntas. This problem is likely to arise if worker delegates challenge the validity of credentials of worker delegates from Peru and Venezuela; it may be side-stepped, but not solved, if Peru and Venezuela do not send labor delegates to the conference, since, even in the absence of Peruvian and Venezuelan delegates, the issue could be brought up and referred to the governing body of the ILO. If Peru and Venezuela boycott the conference entirely, this action could to some extent weaken the ILO.

A second controversial issue likely to appear is the problem of racial discrimination in the Panama Canal Zone. The airing of this problem could provide anti-US elements with a handy propaganda tool even if the AFL delegate is able to point out some progress toward amelioration of discrimination.

Still another problem is the possibility of a clash between pro-Perón and anti-Perón elements at the conference. As there is to be a very large Argentine delegation -- evidence in itself that Perón expects to have his labor views vigorously expressed -- the formation of an anti-Perón bloc may be expected; acrimonious debate between the two blocs could aggravate existing antagonisms.

2. CUBA: Communist Party Split Possibly in the Making

A possible Communist Party (PSP) rift may develop over the position of the Party in the event of a US-USSR war. The difficulties of the leaders stem from the fact that (1) positive advocacy at the present time of help for Russia and sabotage during

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a war would weaken further the already diminished political and labor power of the Party; (2) only an estimated 20,000 of the Party's 155,000 members now favor support of Russia in the event of a US-USSR war; and (3) sabotage activities that militant Communists would be ordered to execute in the event of war would lower the Party's prestige among enough members to destroy it as a political organization.

The "old guard" under the leadership of Blas Roca has recently avoided a showdown over the issue of aid to Russia. The statement of support recently issued after a series of talks among municipal, district and national leaders was so mild as to be little more than lip service to international Communism rather than an aggressive statement of behalf of Moscow. Subsequent international developments could, therefore, conceivably divide the militant Communists from the majority of Party members and thus destroy it as a popular political party.

3. Renewal of Gang Warfare

Justo Fuentes, Vice President of the highly influential FEU, a semi-autonomous student organization, was fatally shot on a downtown Havana street on 2 April 1949. Fuentes, an active member of the UIR -- originally a student group but now a gang of brigands who cloak criminal intent in ideology and propaganda on behalf of political issues -- was probably murdered by the MSR, a rival group dominated by student gangsters and militant anarchists. This was the ninth gang murder in the last six months. Many Cubans fear that it presages the reopening of large-scale gang warfare. The Prío government is especially concerned over Fuentes' killing because he was an active and respected member of the FEU, upon which the government depends for so much of its student and youth-group support. The FEU has demanded that President Prío move to punish Fuentes' murderers in accordance with the anti-gangster law of November 1948, which he personally sponsored. Since the killers are probably members of the MSR, supporters of Prío in the last election, this will be difficult for him to do. Although US interests are in no way directly affected by the event, it is an additional demonstration of the gang warfare that has become such a disturbing feature in Cuban life and of the degree to which it has permeated public affairs in that country.

4. COLOMBIA: Fighting Between Conservative and Liberals Continues

A gang of 200 Liberals from the village of El Cocuy, Department of Boyacá, attacked and burned the houses and crops of Conservatives in the village of Chita. Army units were called

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to quell the fighting. Reports further indicate that the Conservatives are planning a reprisal for the Chita attack.

Some weeks ago the President called a meeting of the leaders of the two parties and warned that the inter-party fighting must cease or he would declare a state of siege and postpone the coming congressional elections. This attack upon Chita (the most serious instance so far) indicates that party leaders are not too successful in controlling their respective parties. Although a continuance of fighting would in all probability result in a state of siege, it is believed that with or without a state of siege the army is capable of preventing any dangerous and widespread fighting.

5. Confidence in Colombia's economic situation has declined sharply in the past three weeks, according to US Embassy Bogota. Evidence of economic maladjustment includes (1) deterioration of Colombia's foreign exchange position, (2) a 10 percent drop in coffee prices, and (3) sharply falling retail and wholesale prices.

During the first quarter of 1949, foreign exchange reserves decreased from \$84 million to \$66 million, chiefly as a result of (1) excessive licensing of certain classes of imports in connection with industrial expansion, (2) decreased dollar expenditures within the country by oil companies, and (3) decrease in other foreign private investments in Colombia. Furthermore, because of the drop in coffee prices, Colombia probably will be forced to adjust to a drop in foreign exchange receipts. Colombia's Coffee Federation is attempting to hold Colombia's coffee off the market until peak prices are again offered, but Colombia's foreign exchange reserves are probably too low for this effort to be successful. The sharp fall of retail and wholesale prices betray the anxiety with which Colombians view the current situation.

The decline of confidence in Colombia's economic situation may well be justified. Long-run prospects for Colombia's key commodity, coffee, are favorable, since the Colombian coffee industry is basically healthy and world coffee consumption is running well ahead of world production. However, in the short run, if panic should strike world coffee markets and coffee prices should continue to fall for a period even as short as six months before reaching a peacetime equilibrium, there could be very serious consequences in the Colombian economy, which is almost entirely dependent on foreign trade and which has insufficient margin in the form of foreign exchange to carry it over even a short period of bad times.

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6. BRAZIL: Government Acts to End "Peace Congresses"

The decisive action taken last week by the Minister of Justice in recommending to all state governors that they should not allow further "Peace Congresses" to be held has, it is believed, given the death blow to the Communist-inspired "Pro-Peace and Culture" campaign in Brazil. Opposition to the movement on the grounds that it was "a Communist maneuver" had already sprung up from various non-Communist quarters. This provides an interesting contrast to the case of the Communist-led "Petroleum Defense" centers, which enjoyed the sympathies of such a large and influential body of the population that the government found it politically inexpedient to take direct action against them.

While the "Manifesto for the Preservation of Peace" which heralded the beginning of the campaign bore the signatures of many prominent non-Communist politicians and journalists who have lent themselves to other Communist-sponsored movements, the absence of military support was noticeable from the start. The campaign, in fact, has not appealed to the patriotic and nationalistic feelings which gave the Petroleum Defense centers their force. The publication in March of a manifesto signed by Luiz Carlos Prestes and four other top Brazilian Communists (all of whom are in hiding) declaring that they would never take up arms against the Soviet Union, but would "take up arms, should it be necessary, against the oppressors of our people" may have helped to crystallize non-Communist opposition to the "peace" movement by directing attention to its origins, and early this month the non-Communist press started a campaign against the movement, denouncing it as an instrument of Soviet policy.

7. PARAGUAY: The election of 17 April of Dr. Felipe Molas López,  
unopposed Colorado Party candidate for President,

really consolidates the position of the Democratic Colorados in the government, although it technically marks the successful attainment by Molas of the position to which he has aspired since November 1947. Since that date Molas, a leader of the militant faction of the Colorado Party, has figured prominently and has improved his position in every political maneuver. His election became a certainty when he broke with his political partner, Liberato Rodríguez, formed a coalition with conservative Democratic Colorados, and became the only presidential candidate (Wkly for 22 Mar 49). Molas' success, however, probably falls short of his ambition, since his present position carries with it only the prestige and not the power usually accompanying the office. His continuance in office largely depends upon the extent of his cooperation with the Democratic Colorados, who

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have emerged as the real power in politics and in the armed forces. If they maintain their present strength, they will be able to implement the democratic measures which they have promised, and to restore tranquility and relative stability to the country. The recognition of the Molas regime by the US, Argentina and Brazil has provided additional strength to the Democratic Colorados.

8. CHILE: US trade with Chile is being adversely affected by Chile's dollar shortage and by the Chilean Government's policy of encouraging the use of soft-currency earnings to pay for Chilean imports. Since European countries are unable to pay in dollars for substantial amounts of copper, nitrates and other products obtained from Chile, that country is accepting payment in terms of their monetary units and thus is in receipt of considerable soft-currency exchange. Chile's diversion of many purchases to soft-currency countries to use these soft-currency earnings has contributed to a sharp curtailment of orders from the US.

9. ARGENTINA: Position on Spain in the UN  
The recent offer by the Chief of the Argentine Delegation to a US UN representative "to save the US any embarrassment" by taking the lead in introducing a motion for the resumption of ambassadorial relations with Spain was evidently calculated to take advantage of any division in US opinion on the matter by (1) renewing Argentina's bid for leadership of the pro-Spanish Latin American bloc, (2) maintaining the appearance of a desire to collaborate with the US.

The Argentine representative's further statement that Spain must eventually be admitted as a member of the Atlantic Pact as well as to UN technical agencies is an indication that Argentina will adhere to its customary role as Franco's leading advocate despite recent Argentine-Spanish differences on commercial affairs.

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Situation Memorandum 21-49

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The Current Situation in El Salvador

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The situation in El Salvador has continued to develop along the lines indicated in  Situation Memorandum 3-49 (1 Feb 49).

Constitutional government, based on free elections (one of the basic objectives of the December 1948 revolution), will probably not be realized for another year. The draft constitution will not be completed until fall, and the Constituent Assembly may not be called until late 1949 or 1950. In the interim, Major Oscar Osorio will remain the dominant figure in the government.

Partisan political activity, in the absence of a state of siege, is at a high point, though Osorio (who believes in maintaining a show of unity and compromise in the governing junta) has cautiously avoided committing himself in favor of any particular party. Nevertheless, conservative elements, both civilian and military, are engaged in an organizational campaign on his behalf, and possibly at his instigation. They feel they will be able to win the support of the former followers of reactionary Colonel Osmin Aguirre, General Peña Trejo, General Espinola Castro, and other conservatives. The moderating influence of the Osorio-dominated junta in the recent strike threat against the International Railways of Central America, and Osorio's statement (for the junta) that El Salvador is not prepared for, and not large enough for, a labor code, indicates that the government will compromise certain liberal goals. Opposition to Osorio may therefore be expected to increase among leftists, but it is unlikely that their opposition can influence junta policy. At present, there is no one powerful liberal or leftist party. The Communists, as are all groups, are currently engaged in an intensive organizational campaign. Although their slight influence may be increasing, they will probably not gain control over the country's most important labor union --- the Railway Workers.

The economic situation should remain favorable. The 1949 budget, now completed, calls for government expenditures of 2,450,000 --- almost as much as last year's record budget.

The government is now seeking to improve the army and air force. A special English language course has been planned to facilitate future training of officers in the US, and a Salvadoran purchasing commission is currently in the US buying training planes and other equipment.

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25X6 In the field of international relations, Salvador is illustrating its desire to maintain the good will of the US. It has earmarked about \$150,000 for payment on its lend-lease account; it faithfully supports its representatives on the UN Korean Commission; it has named observers to the Amnency Conference of GATT; it appointed a delegate to the Fourth Inter-American Radio Conference [REDACTED]

25X6 [REDACTED] The government is continuing cooperation with the US through a joint agricultural experiment station, through support of US military and ground missions, and aid to a field party of the Health and Sanitation Division of the Institute of Inter-American Affairs. It has also named delegates to the Second Session of the Commission of the Census of the Americas of 1950. In the recognition of Venezuela, El Salvador has followed the US lead, though not without the "proper" amount of hesitation. US influence aside, it has also given indication of the Central American liberal ideals through support of Guatemala's claim to Belize.

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The Current Situation in Ecuador

(Summary: The most serious problem facing Ecuador today is its worsening economic situation which, to a growing extent, is making the government of that country more vulnerable to those forces opposed to President Galo Plaza. At this time, the political opposition groups checkmate one another, but certain military groups, that are more unpredictable, may upset the present balance by a shift in support. Communists are active and a potential source of trouble in any emergency, but are at present under control. In international policy and activity, Ecuador is less inclined to follow US leadership in Hemisphere than in extra-Hemisphere relations.)

Economic conditions in Ecuador are critical and constitute the foremost threat to the government's stability. The normal constriction of trade and credit this time of the year has been accentuated by other factors: the unusually tight credit situation resulting from over-extended credit and the lack of credit resources; business apathy due to the reluctance of buyers to place orders (as they anticipate lower prices and a relaxation of exchange controls); and a deterioration of the textile industry (due to excessive stocks which will not move because of their poor quality and high prices).

The economy of the country is basically agricultural. Any decline in world prices for rice, cacao and coffee adversely affects Ecuador's economy, since the export sales of these commodities are the most important sources of Ecuador's foreign exchange. The feeling is prevalent in Ecuador that world prices for these products will decline. Realizing that agricultural diversification and increased efficiency are vital to any improvement of Ecuador's competitive position in the world market, President Plaza has attempted to inaugurate a long-range program of agricultural development based on a liberal system of government loans and the introduction of new products and modern methods of production. Serious labor and economic difficulties, however, have interfered with the implementation of his program by forcing the President to concentrate his efforts on current economic problems rather than upon his long-range development program. In an effort to resolve the country's present economic difficulties, the President is taking measures to relieve the tight credit situation, expanding the operations of the Production Development Institute, and implementing the tariff restrictions on the

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importation of textiles. Thus far, these measures have not succeeded in alleviating the situation to any appreciable extent. Although agricultural credit is freer, commercial credit is still tight and there is a general feeling of caution and apprehension.

The political groups which menace the stability of the Plaza administration are rendered ineffective by their mutual suspicions and fears that an overthrow of the present government might result in placing a rival group in control. The Conservative Party has shown the least opposition to Calo Plaza. This may be explained by its apparent satisfaction, for the time being, with its control of a few strategic political positions (such as the vice presidency and control of the Treasury), and its traditional antagonism to the military. The Socialist Party has characteristically and systematically been the least cooperative and the most persistent in its attacks upon the Plaza administration. The Socialists are using harassing tactics in the hope of forcing the President to take ill-considered and precipitate action. The Liberal Party, on the other hand, is consolidating its strength at every opportunity. The recent appointment of the strong Liberal of exceptional ability, Dr. Eduardo Salazar Gómez, to the key position of Minister of Government will improve this party's prospects for success in the next presidential elections. Colonel Carlos Mancheno was recently appointed leader of the radical wing of the Liberal Party of the Province of Pichincha. Although this element of the party does not appear to have any substantial strength at present, the appointment is more significant than might be the case otherwise, since Mancheno is linked with subversive activity in the army.

The military groups also checkmate each other. Subversive activity led by Colonel Carlos Mancheno and Lt. Colonel César Alfaro appears to be apart from the subversive movement of a leftist character among the enlisted men. It is not possible, however, to predict with certainty the position of the army.

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The Communist Party is taking advantage of the present economic crisis by agitation among the workers and by actively participating in strikes. Fortunately, the administration has been able thus far to cope adroitly with the strikes as they occur. The Communist policy at present appears to be that of harassing the discrediting the administration short of forcing its overthrow. The Communists are reported to be under orders not to precipitate a revolution at this time out of fear that such action would bring the rightists into power. The party is increasing its organizational activity in order to revitalize and

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strengthen its position with labor and with members of the armed forces. In attempting to win control of the labor syndicates, the Communists will have to meet the opposition of the Socialists who have succeeded in weakening the authority of the Communists by taking over the national offices of the Ecuadoran Labor Confederation. The Socialist president of the confederation has stated that there will be no general nation-wide strike until after 1 May, when the next confederation elections take place. This, however, will not lessen the agitation among the workers, since the Communists will make strong attempts to maintain the laborers' state of dissatisfaction to better their chances of winning control of the confederation in these elections.

Fundamentally the Plaza administration is very friendly to the US, and the US could rely upon Ecuador's support in vital international situations. In matters of US interest vis-a-vis the other Latin American countries, however, Ecuador is more likely to go along with the majority of the Latin American countries. For example, Ecuador has indicated its willingness to support Guat mala's claim to Belize. It is expected that Ecuador will do so in a passive manner. There is a definite development of a closer spirit of cooperation with Colombia. A strengthening of trade ties has already been announced, and a military agreement as a means of defense in case of aggression from Peru is a further possibility. Informal discussions along that line have already been reported.